

STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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December 13, 2004

TO: Senator Lisa Brown, Chair

Senator Joseph Zarelli Representative Jim McIntire Marty Brown, OFM, Director Will Rice, DOR, Director

FROM: Chang Mook Sohn, Executive Director

Economic and Revenue Forecast Council

SUBJECT: December 10, 2004 REVENUE COLLECTION REPORT

Revenue was again better than expected this month. General Fund-State receipts totaled \$1,256.6 million in the November 11 – December 10, 2004 collection period. This was \$11.9 million (1.0 percent) above the estimate for the period. Stronger than expected Revenue Act (retail sales, business and occupation, use and public utility taxes) taxes (+\$16.2 million), and "other" revenue (+\$5.6 million), mostly unclaimed property transfers to the General Fund, more than offset weaker than expected estate (-\$2.4 million) and property tax (-\$8.6 million) collections for the month.

Revenue growth was very strong this month while the economy was rather mediocre. The U.S. economy added only 112,000 jobs in November and the October employment number was revised downward. The November jobs number was less than expected and the weakest number since August. In addition, U.S productivity growth slowed in the third quarter and the U.S. Index of Leading indicators fell in November for the fifth straight month. Consumer confidence also declined in October and November; however it may have risen in December. At the state level, employment increased in September, October and in November although the gains in October and November were a little less than we had expected in the November forecast.

Revenue growth accelerated this month. Revenue Act receipts were 9.2 percent higher than a year-ago this period (primarily reflecting October business activity). This was the strongest growth since March. Last month Revenue Act receipts were up a strong 7.6 percent. Revenue Act receipts were 6.2 percent higher than a year-ago in the third quarter as a whole and Revenue Act receipts increased 5.2 percent in the second quarter. Consumers and business spending remains at a stronger than expected pace as job growth and a strong housing market continue to more than offset the impact of higher gas prices. However, anecdotal evidence of holiday spending is mixed and indicates that consumers are cautions and revenue growth may slow a bit.

Memo to Forecast Council Members December 13, 2004 Page Two

Preliminary industry data for the November 11 to December 11, 2004 collection period based on payment data of more than 13,660 mostly large taxpayers who filed electronically, show a 5.7 percent increase in tax payments of businesses in the retail trade and food services sector. Last month retailers reported an 8.9 percent gain. All three-digit retail sectors reported increases, with the exception of food and beverage stores which reported a 3.2 percent decline in payments. Double digit gains were reported by electronics and appliance retailers (+17.4 percent), gas stations and convenience stores (+16.2 percent), building materials/garden retailers (+13.0 percent), apparel and accessories stores (+11.6 percent) and furniture and home furnishings retailers (+11.4 percent). Tax payments by auto dealers were up 4.5 percent. Overall, tax payments by non-retail trade and food services business were up 5.6 percent this month. Last month this category reported a 3.5 percent increase. The construction sector was still strong, reporting a 7.4 percent increase in tax payments for the period.

Non-Revenue Act General Fund taxes collected by the Department of Revenue were \$4.4 million below the estimate for the month. Weaker than expected Property tax (-\$8.6 million) and estate tax (-\$2.4 million) more than offset stronger than expected timber tax transfers (+\$1.0 million), "other" receipts (+5.6 million, mostly unclaimed property transfers). Real estate excise tax receipts were close to the estimate this month.

The growth of real estate excise activity, while still quite strong, decelerated again this month. Taxable activity (based on closings in October which reflect tax payments to the state in November) was 9.8 percent higher than a year-ago, the weakest increase since February. Growth last month was 19.2 percent and it was 20.7 percent two months ago. The strength in real estate activity continues to be driven by higher prices. In the most recent month, transactions were 6.6 percent below the year-ago while the value per transaction increased 16.8 percent. Real estate activity is expected to continue to weaken in the forth quarter if mortgage rates rise as expected.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$129,000 above the estimate for the month.

The attached Table 1 provides a comparison of collections with the November 2004 forecast for the November 11 – December 10, 2004 collection period. The variance for the month is virtually the same as the cumulative variance in Table I because the monthly estimates in the November forecast were adjusted to reflect actual collections through November 10, 2004. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
December 10, 2004 Collections Compared to the November 2004 Forecast
Thousands of Dollars

| Period/Source | Estimate* | Actual | Difference Amount | Percent |
|--|---|---|---|--|
| November 11 - December 10, 2004 | | | | |
| Department of Revenue-Total Revenue Act** (1) Non-Revenue Act(2) Liquor Sales/Liter Cigarette Property (State School Levy)- net after transfer Property tax collections transfer to the Student Achievement Acct. Estate Real Estate Excise Timber (state share) | \$1,244,209 698,977 545,232 8,600 4,166 381,560 395,002 (13,441) 9,160 59,752 1,842 | \$1,256,029 715,197 540,832 8,575 4,124 372,997 386,439 (13,441) 6,764 59,741 2,854 | \$11,820 16,221 (4,400) (24) (42) (8,563) (8,563) 0 (2,396) (11) 1,012 | 1.0% 2.3% -0.8% -0.3% -1.0% -2.2% -0.0% -26.2% -0.0% 54.9% |
| Other Department of Licensing (2) | 80,152 456 | 85,776 584 | 5,624 129 | 7.0% 28.2% |
| Total General Fund-State*** Cumulative Variance Since the November 2004 Forecas | \$1,244,664 t (November 11, 2 | \$1,256,613 004 - December 1 | \$11,949 10, 2004) | 1.0% |
| Department of Revenue-Total Revenue Act** (3) Non-Revenue Act(4) Liquor Sales/Liter Cigarette Property (State School Levy)-net after transfer Property tax collections transfer to the Student Achievement Acct. Estate Real Estate Excise Timber (state share) Other Department of Licensing (4) | \$1,244,209 698,977 545,232 8,600 4,166 381,560 395,002 (13,441) 9,160 59,752 1,842 80,152 | \$1,256,029 715,197 540,832 8,575 4,124 372,997 386,439 (13,441) 6,764 59,741 2,854 85,776 | 11,820 16,221 (4,400) (24) (42) (8,563) (8,563) 0 (2,396) (11) 1,012 5,624 | 1.0% 2.3% -0.8% -0.3% -1.0% -2.2% -0.0% -26.2% -0.0% NA 7.0% |
| Total General Fund-State*** | \$1,244,664 | \$1,256,581 | \$11,917 | 1.0% |

 $^{1\ \} Collections\ November\ 11\ -\ December\ 10,\ 2004.\ Collections\ primarily\ reflect\ October\ 2004\ activity\ of\ monthly\ taxpayers.$

² November 1-31, 2004 collections.

³ Cumulative collections, estimates and variance since the November 2004 forecast; (Nov. 11 - Dec. 10, 2004) and revisions to history.

⁴ Cumulative collections, estimates and variance since the November forecast; (November 2004) and revisions to history.

^{*} Based on the September 2002 economic and revenue forecast.

^{**}The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

^{***} Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing), about 97% of total General Fund-State revenue.

TABLE 2 November 10, 2004 Collection Report - Revised Data Thousands of Dollars

| Period/Source | Collections Preliminary | Revised | Difference Amount Percent | | | |
|---|---|---|---|--|--|--|
| October 11 - November 10, 2004 | | | | | | |
| Department of Revenue-Total Revenue Act (1) Non-Revenue Act(2) Liquor Sales/Liter Cigarette Property (State School Levy)-net Property tax collections transfer to the Student Achievement Acct. Estate Real Estate Excise Timber (state share) Other | \$981,224 844,435 136,790 8,249 4,388 8,623 30,618 (21,995) 9,683 60,409 0 45,438 | \$981,224 844,435 136,790 8,249 4,388 8,623 30,618 (21,995) 9,683 60,409 0 | \$0 (0) (0) 0 (0) (0) (0) (0) 0 | 0.0% -0.0% -0.0% 0.0% -0.0% -0.0% -0.0% -0.0% -0.0% | | |
| Department of Licensing (2) Lottery (2) | 572 0 | 604 0 | 32 0 | 5.6% NA | | |
| Total General Fund-State*** | 981,797 | 981,829 | \$32 | 0.0% | | |
| Cumulative Receipts: September 11 - November 10, 2004 & Revisions to History | | | | | | |
| Department of Revenue-Total Revenue Act (3) Non-Revenue Act(4) Liquor Sales/Liter Cigarette Property (State School Levy)-net after transfer Property tax collections transfer to the Student Achievement Acct. Estate Real Estate Excise Timber (state share) Other | 1,792,684 1,572,810 219,874 16,677 9,112 (3,375) 18,620 (21,995) 30,607 123,189 0 43,664 | \$1,792,684 1,572,810 219,874 16,677 9,112 (3,375) 40,615 (43,990) 30,607 123,189 (0) 43,664 | (\$0) (0) (0) (0) (0) 0 21,995 (21,995) 0 (0) (0) | -0.0% -0.0% -0.0% -0.0% -0.0% 118.1% NA 0.0% -0.0% NA | | |
| Department of Licensing (4) Lottery (4) | 1,326 0 | 1,360 0 | 34 0 | 2.6% NA | | |
| Total General Fund-State*** | \$1,794,010 | \$1,794,044 | \$34 | 0.0% | | |

Preliminary. Reported in the November 10, 2004 collection report.

Office of the Forecast Council

¹ Collections October 11 -November 10, 2004. Collections primarily reflect September 2004 business activity of monthl taxpayers and q3,2004 activity of quarterly filers.

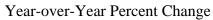
² October 1-31, 2004 collections.

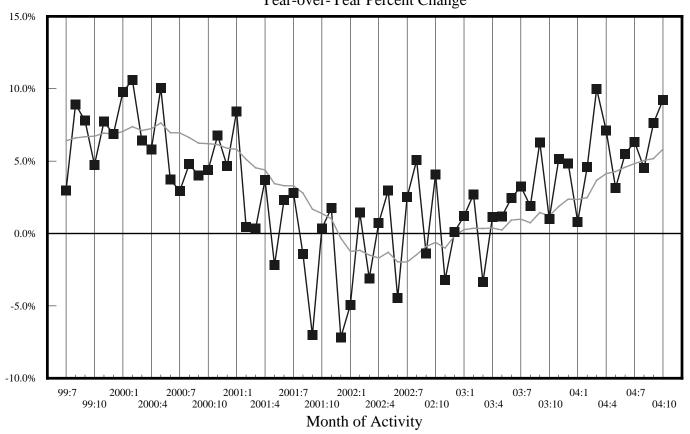
³ Cumulative receipts since the September 2004 forecast: September 11- November 10,2004 & revisions to history.

⁴ Cumulative receipts since the September 2004 forecast (October) & revisions to history.

^{*} Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections





—— %CH from year-ago month

____ %change: 12 month moving average